Business

Six-pack solution New legislation will force governments to face up to responsibilities of belonging to the EU – Olli Rehn Personal View B4

Deadlock threatens eurozone summit

Franco-German stand-off sends shock waves around the globe

By Louise Armitstead and Bruno Waterfield in Brussels

PLANS to "decisively address" the debt crisis this weekend were plunged into chaos last night as European leaders were forced to announce another "summit" next week amid political deadlock between France and Germany.

A statement released by the Élysée Palace said that Nicolas Sarkozy and Angela Merkel would meet to discuss their "ambitious and comprehensive response" to the crisis ahead of the European Council summit on Sunday.

But in a tacit admission of the gulf between them, the statement added that resolutions would be "finally adopted" at a "second meeting no later than Wednesday".

Insiders said the weekend's summit of European leaders came close to being cancelled altogether, with the French president Mr Sarkozy having to plead with German Chancellor Mrs Merkel not to pull the plug, during frantic telephone calls.

The second summit delay sent shock waves around the world. Politicians and financiers have been banking on repeated pledges from France and Germany to "decisively address" the crisis by Sunday.

President Barack Obama last night held a video conference with Mrs Merkel, Mr Sarkozy and David Cameron to discuss the crisis. In a statement, the White House said the German and French leaders "fully understand the urgency of the issues in the eurozone and are working diligently to develop a comprehensive solution that addresses the challenge and which will be politically sustainable".

However, traders are braced for a volatile day on global stock markets. Yesterday, European bourses sank amid concerns about the deadlock. The pan-European Stoxx 600 fell 1.5pc; Germany's DAX was down 2.5pc; France's CAC dropped 2.3pc. In London, the FTSE 100 shed 1.2pc and closed at 5384. Benchmark 10-year bonds erased early gains and slid in the wake of the statement.

Mr Sarkozy and Mrs Merkel said they had "agreed" to provide definitive solutions to the crisis via a three-pronged plan: to expand the role of the European Financial Stability Fund (EFSF); to recapitalise the banks; and to strengthen economic integration in Europe. The deadlock continued over expanding the EFSF.

Last night, sources said France was preparing to concede defeat on its demands that the European Central Bank (ECB) is used to back the bail-out fund. Mr Sarkozy, who was preparing to leave his day-old daughter and return to Frankfurt again last night, told French MPs that the idea was "off the table".

Earlier, Wolfgang Schäuble, the German finance minister, said there should be "no doubt" that Germany rejects leveraging the fund's firepower by giving it access to ECB financing.

Germany is pushing for a system to boost the EFSF's €440bn (£384bn) capital to €2 trillion via a complex system of underwriting a proportion of distressed bonds. However, Germany's leaders were grappling with a rebellion from politicians in Mrs Merkel's coalition. They have demanded details of the EFSF plans or they will withdraw Mrs Merkel's mandate to negotiate.

Mr Schauble attended a closed meeting of Germany's budget committee yesterday to try to appease the rebels, one of whom said: "If we don't give the government a mandate, it will be able to negotiate but not finally and formally agree to anything. It'll have to come back to us."

A draft summit statement obtained by *telegraph.co.uk* yesterday revealed plans for a revised European Stability Mechanism (ESM) treaty by the end of November, which will be brought into force as soon as possible before June 2013. The ESM has been designed as the permanent replacement of the EFSF.

Opposition to the bail-out plans was reinforced when Germany's growth forecast for next year was cut to 1pc, down from a previous 1.8pc.

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AFP/GETTY IMAGES

Under pressure: German Chancellor Angela Merkel faces a rebellion by politicians in her coalition

Greece passes austerity plan to secure €8bn

By Louise Armitstead

GREEK politicians have narrowly passed a tough austerity package to secure an €8bn (£6.9bn) tranche of international funding that will stave off imminent default.

Despite another day of violent protests on the streets of Athens, politicians backed the bill 154 to 144 after desperate pleas from Greek senior ministers.

Meanwhile, a leaked report from the latest "troika" mission revealed that officials from the European Union, European Central Bank and International Monetary Fund (IMF) have concluded that the €159bn Greek bail-out agreed three months ago is no longer adequate to stabilise Athens.

The officials said Greece's financial situation had deteriorated significantly since the vast bail-out was agreed in July.

The draft report, which was sent to eurozone countries yesterday, argued that Greece's "debt dynamics remain extremely worrying". It said that Greece is likely to miss its 2011 debt targets by between €1.4bn and €1.2bn. Greek national debt will soar to 181pc of gross domestic product next year, as opposed to 161pc predicted in July.

The report said: "When compared with the outlook of a few months ago, the debt sustainability has effectively deteriorated given the delays in the recovery, in fiscal consolidation and in the privatisation plan, as well as the perspective of bank recapitalisation.

"There is no doubt that Greece is undergoing a recession that is deeper and longer than expected in the previous quarterly report," the study found. "The deterioration in the labour market, with employment falling much faster than expected, uncertainties of a political and financial nature, and social unrest and industrial action have weighed on supply and on domestic demand."

The troika recommended that the €8bn cash injection – the sixth tranche from the first bail-out agreed in May 2010 – be paid to Greece as soon as possible once the agreed prior actions on fiscal consolidation, privatisation and labour market reform, which were announced by the government, have been legislated.

Even the rebel Greek politicians fighting the severe austerity measures have accepted that the tranche is vital to avoid the consequences of a disorderly default.

Ahead of yesterday's austerity vote, Vasso Papandreou, once one of the bill's fiercest critics, reversed his position to back it. The former development minister told the Greek parliament: "I have a problem with my conscience in voting for this legislation, but I couldn't handle the responsibility of the loan tranche not being paid."

Evangelos Venizelos, the Greek finance minister, had also warned rebels to pass the bill. He said: "If the law is not approved, including every single article it contains – particularly those that [Greece's creditors] and eurozone members regard a symbolic and political necessity – there is no need for me even to go to the eurogroup meeting on Friday, or the prime minister to Sunday's summit."

The Telegraph

In pictures: general strikes sweep through Greece
telegraph.co.uk/finance

£1 in every £10 spent online as web clicks with shoppers

By Harry Wallop

NEARLY £1 in every £10 spent by consumers goes on goods bought online, according to official statistics.

This is the latest evidence that smartphones, such as the iPhone, have helped catapult internet shopping from a minority interest – previously undertaken by a relative small number of technology fans – into a mainstream activity.

It is also raises further questions over whether the high street is being hit by the growth of online shopping. Last month, Next admitted that much of its stellar online growth had come at the expense of sales at its high street stores.

According to the Office for National Statistics, Britons spent an average of £539m online each week in September, out of £5.61bn total sales.

This 9.6pc share is the biggest on record, and is more than three times bigger than the 3pc share back in early 2007. It represents a 30pc increase on a year ago.

The internet trading figures were released alongside better-than-expected retail sales figures, which indicated that, in volume terms, sales had increased by 5.4pc in September compared with last year. But nearly all of that growth came from inflation, with the volume of goods sold increasing by just 0.6pc.

Larger stores appeared to have been outperformed by smaller outlets, which rose 2.1pc.

Mark Hudson, retail expert at PricewaterhouseCoopers, said: "The retail market still remains fragile, suppressed by consumers reining in their spending in a climate of continuing economic uncertainty. Clothing sales were particularly hit hard with the sprinkle of unseasonal weather providing an unwelcome appearance."

Major G4S shareholder to vote against ISS deal

By Graham Ruddick

ONE of the largest shareholders in G4S has said it will vote against the £5.2bn acquisition of cleaning group ISS, calling the deal "dangerous".

London-based hedge fund Parvus Asset Management is the third-largest shareholder in security group G4S with 3.7pc, and is the first investor to publicly express its opposition to the deal.

Parvus founder Edoardo Mercadante told *The Daily Telegraph* yesterday that the deal "jeopardises the future health of the company" and "doesn't make sense" given G4S's success in security since its founding in 2004.

Shareholders will vote on the deal on November 2, but G4S already appears to be facing a rebellion from at least one investor. A second top-20 shareholder said the acquisition of ISS is "absurd" and "totally unnecessary".

£5.2bn

The amount G4S would pay for ISS. Parvus Asset Management called the deal 'dangerous'

G4S needs 75pc of voters to support the deal or it will collapse. Nick Buckles, chief executive, believes buying ISS will allow G4S to offer a wide range of services to customers. The company is financing the deal with a £2bn rights issue and £3.7bn of new debt facilities.

However, Mr Mercadante said: "I don't think they need to go into cleaning and basic services with such leverage and a big step."

He said the acquisition was a "big strategic change" given Mr Buckles had previously spoken about expanding G4S into higher-margin specialist security and emerging markets. It is understood Mr Buckles instead decided to turn G4S into a provider of integrated services after a strategic review by consultants Bain earlier this year.

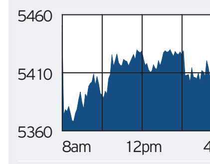
Parvus has been invested in G4S through contracts for difference since April 2010. These were swapped into shares on Wednesday. The number of hedge funds with a position in G4S is expected to rise because of the sharp fall in the share price since the acquisition was announced and the possibility of the deal not completing.

In a note yesterday, analysts at Collins Stewart said the ISS deal "destroys significant shareholder value" in G4S. They were using their analysis service Quest, which calculates the value of businesses on the basis of cash flow.

60 SECOND BRIEFING

MARKETS

FTSE 100



5384.68 -65.81 -1.21pc

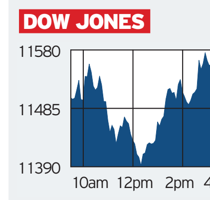
2011 High	6091.33	
2011 Low	4944.44	
Yield	3.61pc	+0.04
P/E ratio	8.53	-0.11

Reports of stalled talks between France and Germany to forge a plan to resolve the euro debt crisis pushed the FTSE 100 down.
MARKET REPORT **B7** »

BIGGEST RISER
G4S
241p
+7.4p (3pc)

BIGGEST FALLER
IMI
765½p
-44½p (6pc)

DOW JONES



11541.80 +37.16 +0.32pc

The Dow made tentative gains on hopes that the eurozone may be close to a deal on the sovereign debt crisis.

OTHER MARKETS

FTSE 250	10111.14	-120.69
FTSE All-share	2776.23	-33.82
Yield	3.52	+0.05
FTSE Eurotop 100	1995.50	-29.95
Nikkei	8682.15	-90.39
DJ Eurostox50	2271.71	-58.31
S&P 500	1215.39	+5.51
Nasdaq	2598.62	+5.42

CURRENCIES

	£ €	£ $
RATE	1.1451	1.5685
CHANGE	-0.20c	-1.47c

FULL LISTING **B5** »

COMMODITIES

GOLD
$1625 (£1032)
-31.00 -1.87pc

BRENT CRUDE
$109.76 Nov
+1.38 +1.27pc